# “AIA Engineering Limited Q1 FY-23 Post Results Conference Call”

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**MR. SANJAY MAJMUDAR –AIA ENGINEERING LIMITED**

**Moderator:** Good evening, ladies and gentlemen, thank you for standing by. This is Yashaswi, the moderator for your call today. Welcome to the Post-Results Conference Call of AIA Engineering Limited. We have with us, today, the management team of AIA Engineering Limited.

At this moment, all participant are in a listen-only mode. Later we will conduct a question-and-answer session. At that time if you have a question, please press '*' and '1'.

I would now like to turn the conference over to AIA Engineering management team. Please go ahead, sir.

**Kunal Shah:** Thank you. A very good evening to everyone. Warm welcome to our conference call. This is Kunal, and I have Sanjay Bhai here also on the call with us. Given its first quarter, we have discussed at length on the plans for this year on the fourth quarter call last month, 1.5 months ago. So, we do not have a lot of updates for this quarter, but nevertheless, as usual, we will run through the numbers, share a brief on where we stand on a macro level and we will open it to Q&A thereafter.

So, we have produced about 68,000 tons in the quarter and sold about 68,000 tons of sales for this quarter, which is up from 60,000 tons in the first quarter last year. But clearly, that quarter is not comparable because of COVID interruption. On a sequential basis, we did about 73,000 tons in the fourth quarter. Compared to that, we did about 68,000 tons this quarter. Our realization has inched up to about 150-plus during this quarter, largely reflecting the inflationary pass-through that has come along.

Over last 2 quarters, we have seen that pass-through that we had spoken of come along. For the quarter, our raw material pricing still reflects the high raw material costs. We have seen some easing over the month of July, but still not material in that sense of things. So, raw material pricing still continues to be volatile and high and so is shipping. Most of the lanes where we operate, shipping costs have yet not softened, but it looks like when we speak to people in the trade that shipping costs should start to normalize in a few quarters' time.

So, given the (Inaudible) **2.38** and hence the realization increased to 150-plus, we have seen our revenue is at Rs. 1,064 crores. Our EBITDA is at Rs. 267 crores, and which is about 25% as a percent of sales. And our profit after tax is at about Rs. 190 crores. These numbers are largely comparable to the fourth quarter of last year. Our other income is at Rs. 15 crores, which is largely export benefits and which is RoDTEP and drawback. We have got non-operating other income of Rs. 20 crores, a large part of that is treasury income of about Rs. 14 crores and foreign exchange gain of about Rs. 6 crores.

Raw material is at 44% to sales in line with the fourth quarter. I think most of the costs are comparable to the fourth quarter. Working capital is, again, similar to the fourth quarter. We had about 120 days. No significant change in raw material inventory, finished goods or receivables. Tonnage breakup that we have shared in our quarterly snapshot, mining is 45,000 tons and non-mining is 22,000 tons. We had a slightly slower sales in cement, but more seasonal than anything structural, just the product mix for this quarter. Our non-mining was 28,000 tons and mining was 44,000 tons. So, the 5,000-ton reduction largely comes from the non-mining seasonal impact for this quarter.

Our cash at the end of the quarter was Rs. 2,065 crores, up from Rs. 1,868 crores end of March. And from a CAPEX standpoint, investment standpoint, we continue on track for Rs. 300 crores this year. Just to recap, we are in the process of commissioning our mill lining plant, which is at 50,000 tons. We are waiting for consent to operate, and we are expecting that in August of this year, this month. So, latest by this month or next, we should be commissioning that plant, which will take our weighted capacity from 390,000 tons to 440,000 tons.

We have announced some grinding media plant in our last quarter call, which is of 80,000 tons and which will take our capacity to 520,000 tons. The grinding media plant will get commissioned in the second half of FY '24, total CAPEX of approximately Rs. 250 crores. Over and above that, all other CAPEX put together, over the next 2 years, we will need another Rs. 150 crores for maintenance CAPEX, some investments in wind and renewable energy, maintenance CAPEX, some capacity building for patent shop and other things that we need off. So, we are looking at about Rs. 400 crores total CAPEX between 2 years, of which about Rs. 250 crores Rs. 275 crores should come this year and the balance should come next year.

From an overall market standpoint, as mentioned early on, shipping still remains to be a cause of concern in terms of our current cost. But clearly, we are shifting gears to say that we are looking at growth making this part of the cost conversation. When it comes to conversion from forged to chrome, obviously, shipping freight becomes an additional delta that we need to pass through. And that is just something that we would wish was a little lower. It would have gotten closer to pre-pandemic levels, and we are hoping that, that will happen in the next 2 quarters.

Having said that, we remain optimistic of doing 30,000 tons of additional tonnage this year and then continuing that pace of 25,000 tons to 35,000 tons each year thereafter. This is more directional. We explained our constraint in giving exact figures to model just because many variables play into that conversion time line and which is where we will be sharing near-term guidance and overall structural direction for periods going forward after that.

I think that, by and large, mining companies remain optimistic about their prospects. Commodities have done well. And our solutions for mill lining and high chrome grinding media, all feed into significant material benefits for our customers, right? They are looking at increased throughput in mines for copper, for example, where that is a very valuable improvement because the quality of ore is worsening rapidly and any inputs which can improve throughputs is very, very welcome from the customer side.

Likewise, we are able to help with recovery, we are able to help with power costs, material costs, which is cost of raw material, which is cost of grinding media and mill lining, cost of reagents. All put together, we remain very, very excited about what the future holds and we have discussed that strategy then.

We will have Sanjay Bhai just share his summary on this, and we will move on to Q&A thereafter.

**Sanjay Majmudar:** Well, good afternoon, and happy to just very quickly add to what Kunal said. Directionally, we remain absolutely on track as the results have shown. We continue to demonstrate our ability to pass on the cost increase, both in raw material as well as in freight as it will be seen from an increase in the average realization, which has inched up to 150-plus this quarter. The margins look healthy. Even at the operating level, the EBITDAs are in the range of about 23%-odd, whereas the reported EBITDA is obviously higher at about close to 25%. The CAPEX plans are on track.

The work for the new grinding media facility, which we have announced with 80,000 tons has already started. The mill liner project is actually technically commissioned, but we are waiting for the last mile approval from the local authorities and then we should be able to flag it off. But all other work on that project is over.

So, we continue to maintain the same guidance that we gave at the time of the FY '22 results call about the growth. So, in short, everything seems to be quite very much in order. The work on all the new mining opportunities is going on with full blast. And I think we should be able to achieve what we have projected.

I think with this, I will request the moderator to go ahead with the Q&A.

**Moderator:** Thank you. We will now begin the question-and-answer session. We have our first question from the line of Ashutosh Tiwari from Equirus Capital. Please go ahead.

**Ashutosh Tiwari:** Congrats on good numbers. Firstly, if I look at the freight outward expenses, they have declined almost 20% quarter-on-quarter. So, is it there are some reduction in the ocean freight cost or it is?

**Kunal Shah:** No, that is just the export from India because we have got a fair amount of material in transit also, right? So, that is just a quarterly volume of export, that reduction only reflects that. It gets built into a stock value and increase/decrease ultimately.

**Ashutosh Tiwari:** Okay. So, there is no reduction in freight costs.

**Kunal Shah:** No. That is not reflecting in the shipping.

**Ashutosh Tiwari:** Okay. And we are seeing lot of this, the power and fuel cost increase happening for industry per se but we are not so much impacted so far. So, anything that can come up in that in future like, say, an increase in power and fuel cost expected?

**Kunal Shah:** So, we have got some amount of gas that we use for our industrial, but the large majority of our cost is grid linked to power, right? 20% of our power comes from our own captive renewables. So, that is protected from inflation. Of our total energy, I would imagine, gas is less than 15% or 10%. So, that is not a material part. And the balance is I think the state's electricity costs have not significantly gone up. There is some increase, but not comparable to other energy increases that you have seen.

**Ashutosh Tiwari:** Okay. And what was the realized rate for USD/INR in this quarter?

**Kunal Shah:** Realized rate? Just one second. Ashutosh, I will just come back to you. I do not have it.

**Ashutosh Tiwari:** No issues. Lastly, in terms of demand side, mining side, things remain healthy, there is no change per se.

**Kunal Shah:** Yes. From a demand standpoint, absolutely okay. I mean the only last bit of our story is taking market share from a large pie, right? We are not linked to growing that pie, right? That is not what we are focused on or really affects our fortunes. So, to that extent, market is there, there are all sorts of headwinds. I think most are getting addressed. Shipping rates is part of our process now, right? But it would be nice for that to have easened out. I think from a demand standpoint, customers remain extremely buoyant. I do not think there is any concern there.

**Ashutosh Tiwari:** Okay. And just one more question. We are also hearing that the transit times are coming down in terms of your ocean container transit times. Is that correct? If that is correct, in that case, should we also see some reduction in inventory going ahead over the next 3, 4 quarters?

**Kunal Shah:** I think so inventory will get optimized, but too early to say that, right? I do not think it is linked to the transit time, it is linked to customers' anxiety about interruptions in the supply chain, right? The higher shipping cost also reflects that the supply chain is not back to normal, right? It is still affected in terms of delays at ports for clearances and other things, right?

And making sure we have inventory there just gives them comfort that they will not be affected by any interruption there. Absolutely, there is scope for some reduction there but no point in factoring any of that today when still things are not optimized and not normal yet. The realized rate was Rs. 77.32.

**Moderator:** Thank you. We have our next question from the line of Sumit Jain from ASK Investment Managers Private Limited. Please go ahead.

**Sumit Jain:** So, when you talk about roughly 30,000 tons of additional volumes this year and next year, this is only the grinding area or this includes some lining material also because.

**Kunal Shah:** No, it is all put together, total volume growth.

**Sumit Jain:** Total volume growth, including mill liners?

**Kunal Shah:** Yes.

**Sumit Jain:** Okay. And this reduction in freight cost, if you can just explain a bit more because you are saying it is not still freight cost per ton or your freight costs coming down and you still has challenges passing it on?

**Kunal Shah:** Sorry, can you repeat, Sumit, I did not get your question?

**Sumit Jain:** So, this reduction Q-o-Q in freight cost, if you can explain a little more because what you sound and what you tell, and correct me if I am wrong, is that you are trying to tell us is that you are still not able to fully pass on the freight cost.

**Kunal Shah:** No. There are three different things you are touching on. One is the reduction in freight cost, the absolute reported figure between Q4 and Q1. That figure is simply what was exported in those 2 quarters and the shipping cost that we incurred on that export, right? That does not reflect the export sales because when we export, we are billing it to our own subsidiary, and that sits down as inventory over there, right? This line item is net of those adjustments. It is just what we exported and what was the cost incurred for that export. That is not suggestive of lower cost or higher cost.

**Sumit Jain:** Right. So, there are still challenges in terms of passing on the freight cost to the customer, right?

**Kunal Shah:** So, that one is clear? That is not a lower cost, it is just reflective of the export volume in those 2 quarters, first point. Second point is that over the last 3 quarters, as you have seen our realization has moved from 120, 130 now to 150-plus, we have been able to pass through raw material increases, we have also been able to pass through the shipping cost, right, where our EBITDA coming back up to 25%.

I am just comparing EBITDA and not the operational margin. I mean the same delta will appear over there as well. We may have done a little more in some quarters. But generally speaking, we have been able to pass through most of our costs. So, that is second part of it, right? The third part is, I do not think there is a large part of cost that we are getting today and we have not been able to pass through. I mean, reasonable part of it has been passed through.

The third angle is, if a freight cost was $100 per ton before COVID or a normalized shipping, that cost is $300 per ton. For new when I am talking of business growth, which I am talking of new conversions from forged to chrome, that additional cost becomes my delta over a local producer, right? If I am replacing a local producer of forged type, he is not incurring this extra shipping cost, right?

So, there is a cost difference between forged and chrome. There is an additional cost that is there on account of us having to ship from India to wherever that customer is right? That is what we are saying is, it is a cost we would like, that conversions could have faster had that cost been little lower. That is our impression now. So, that is the third part linked to business growth.

**Sumit Jain:** So, which means that eventually when freight normalizes, your volumes can come back because your product becomes that much more competitive to the local competition.

**Kunal Shah:** Exactly. That is why we are saying 30,000 tons, 40,000 tons, 25,000 tons, 35,000 tons we will add each year comes from that, right? And that was our original model, right? That was where we are saying we are a better product as compared to forged for a variety of things that we discussed, right, throughput, this that.

Question is, freight becomes an additional deterrent today, the additional cost factor for discussion. I would say absolutely, I mean, that cost going down, certainly lubricates the conversation. It allows us to take that one more cost for the returns to work. Absolutely, I mean, we would hope that as and when shipping rates normalize, our growth rates, it would get reflected in our ability to convert better.

**Sumit Jain:** And our OP per ton of Rs. 36, I think this was splendid margin. When eventually disinflation or softening of inflation prices coming down happens, does that go down or this is kind of maintainable?

**Sanjay Majmudar:** Look, first, I just want to clarify that internally, as we have been repeatedly telling, we do not compute all the margins pattern for the simple reason that we do not have a standard unit of measurement in the sense that our product range is very wide and diverse. So, at one end of the spectrum, you are buying grinding media and then you have liners and then you have castings and there is a mix of things.

However, having said that, freight is an add-on to the FOB price that we charge to the customer, and that is always charged on an actual basis. So, theoretically, the realization might come down if supposing the freight goes down. See, as you rightly pointed out, there is a little bit of a directional movement in the freight costs. We see they are going a little bit on the southwards.

Having said that, there are still pockets where we operate where things are not moving as quickly. So, eventually, we will take maybe in the next 3 months or 6 months, you will see the freight costs really going down. At that point in time, our average realization can come down definitely because that is a function of actual costs being added to the FOB rate at which we have firmed up a contract.

However, therefore, from a margin standpoint in an absolute terms, we will be agnostic for the simple reason that freight is always charged extra on an actual basis per customer. So, if you look at the percentage margin theoretically, it may inch up a little bit. As the freight costs go down and the margin remaining constant, then margin as a percentage to sales can inch up a little bit but very marginally. So, I think it is not fair and correct to take it on a pattern basis.

**Sumit Jain:** Right. And lastly, if you can give commentary about the 3 places where we have OP, that is Canada, Brazil and South Africa in terms of volumes?

**Kunal Shah:** So, South Africa, very little volumes, Canada also very little this quarter. I think Brazil continues. Full year, we will do between 8,000 tons and 10,000 tons.

**Moderator:** Thank you. We have our next question from the line of Amit Dixit from Edelweiss Broking. Please go ahead.

**Amit Dixit:** Congratulations for a very good set of numbers. I have a couple of questions. So, the question is if you can give a breakup between exports and domestic sales volume in this quarter? That is the first question.

**Kunal Shah:** Okay. And what was the second question?

**Amit Dixit:** Yes. The second one is essentially that, with the mill liner plant also going to get commissioned, so will there be incrementally better margins from mill liners? Or how do you look at it? Or will the margins be similar?

**Kunal Shah:** All the margins in liners at a product level, the margins are different, at an EBITDA contribution level, most margins normalize, right? In the current product mix, we have grinding media and we have a non-grinding media piece, right? So, while mining liner comes up, we are still looking to ramp up our grinding media sales also.

So, I do not think you should look at grinding media and the mill linings separately from a margin standpoint, right? Even at 260,000 tons, if I add 15,000 tons of mill lining, it is not even a material margin movement even if it was different in that sense. So, I think we will not have additional margin on that account.

**Sanjay Majmudar:** So, always lot to talk about blended margins and that is how it is. Theoretically, as Kunal explained, there would be a variation, obviously, but we continue to give broad indications about the blended margins.

**Amit Dixit:** Okay. So, an offshoot of that question, will these mill liners now that your product portfolio would increase essentially, so would it help you to further enhance the conversion? Because now you are offering basically one more thing in the product.

**Sanjay Majmudar:** Definitely. See, our strategy is that we target various mines based on different strategies within the broad focused universe of gold, copper and iron, okay? So, as we explained in the past, there are quite a few mines we approach based on the DP-related or the down process-related advantages that we can bring on table. There are quite a few mines we approach on the liner situation. Our whole idea is that whatever approach we take, ultimately, the volumes would want to be doing lot of cross-selling.

And therefore, our idea is to increase the sales of grinding media on the back of liners or vice versa. There are quite a few mines where we talk of grinding media and then also push liners. So, the whole focus is we are perhaps the only company in the world who can give all these multifarious solution capabilities, which we can demonstrate and therefore, the eventual idea is that while the liner market could be just about 300,000-odd tons and we are talking of 40,000 tons, 50,000 tons, near to 50,000-plus tons capacity that we have created, dedicated plus the existing setup, the whole idea is that while we improve or increase the penetration on the liner side, we will definitely push the volumes through grinding media. That is the whole idea.

**Kunal Shah:** And just to answer volume question, our volume is also similar to our revenue breakup between 26%, 27% is India versus west wing export, yes.

**Moderator:** Thank you. We have our next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

**Ravi Swaminathan:** My first question is with respect to the blended realization. Obviously, this quarter realization was one of the highest. How do you see the realization panning out? Has it fully captured in the price increases that we need to take further rupee depreciation, can it be relevant to the realization? Where do you see this realization settling in over the next 12 to 24 months?

**Sanjay Majmudar:** See in our view, we believe that the current Q1.

**Kunal Shah:** I think so this reflects more or less most pass-throughs. Some raw material prices, it may not increase significantly. The only difference would be currency and product mix from here on.

**Sanjay Majmudar:** So, it may come down, as I said, if the freight goes down or if the ferrochrome prices come down. I think we are seeing directionally a little bit of softening everywhere. So, you may treat this as the peak.

**Ravi Swaminathan:** And secondly, with respect to the efforts with respect to the grinding media in new geographies in Latin America, any update on that? Especially the key countries like Chile, Peru, bulk of the volumes from copper, et cetera, can be there. So, any large?

**Sanjay Majmudar:** Nothing to report over last quarter.

**Kunal Shah:** Yes, exactly. We continue to put our efforts for those markets.

**Ravi Swaminathan:** Got it, sir. And any target volume for mill lining this year and next year from the new facilities that you can talk about?

**Kunal Shah:** We will just leave it at overall 30,000 tons volume, allow us to just execute this over this year.

**Moderator:** Thank you. We have our next question from the line of Bhoomika Nair from DAM Capital. Please go ahead.

**Bhoomika Nair:** Congratulations for a good set of numbers this quarter. Sir, just to extend on this realization bit. Now I understand that ferrochrome prices have actually fallen by about 20%, 25% on a spot basis and not to mention that other aspects like freight, et cetera, itself are softening. So, would it be fair to say that in a gradual manner, this would be reflected into our realizations as we move ahead?

**Kunal Shah:** Yes, it is a pass through both ways, Bhoomika. It cannot be one way, right? The customers have given us the pass through when it went up, we will have to be fair and square and pass back some of those movements. Yes.

**Bhoomika Nair:** Okay. So, when we pass it on, while I do understand that it is not fair to really look at on a per ton EBITDA or a per ton gross margin, given the change of mix and other aspects which come along the way, but how should one look at the margin profile? Would it remain in the 22%, 23% band? Or with the pass-through element of the lower cost structure, the margins will optically look better, though maybe not on your basis in terms of per ton basis may not really go up. Is that the way we should be thinking about?

**Sanjay Majmudar:** Yes. You are very right, Bhoomika. Sanjay, here. You should not look at it on a per ton basis. I think as I explained in one of the previous questions, the correct way would be to look at it as a percentage. So, operating EBITDAs are around 23%, they might inch up a little bit in terms of percentages as gradually the realizations go down. But as we have always maintained, it is always also a function of product mix.

So, if product mix becomes better in terms of more value-added products getting added, the realizations average level might not fall drastically from the present level. So, I think from a percentage standpoint, I think we should be good and this should be regarded as quite comfortably maintainable and maybe improve a little bit.

**Bhoomika Nair:** So, the other thing is in terms of the volume growth. We are looking at 30,000 tons to 50,000 tons on an annual basis incremental volumes over the next few years. As we kind of scale up in terms of our market share, at what point do you think that the forged media guys will get up and say, okay, we are losing like the Mol Corps of the world that we are starting to lose market share and they start getting more aggressive in whatever manner that they can, either in terms of getting aggressive in terms of market. Your views on that, sir, maybe long-term perspective not something.

**Sanjay Majmudar:** Yes. So, first, let us be very honest, this whole equation is actually far more complicated than it sounds over a call, okay? So, there are multiple factors that we always face when we approach a mine. Most important part, what we believe is that, given the cutting-edge capability of offering this unique solution, this capability is not available with forged media players. So, beyond a point, they cannot compete.

We are not sounding arrogant, but the fact remains that when they cannot directly have an apple-to-apple comparison in terms of solution capability or the product attributes that what we offer vis-a-vis what they are currently offering, there is a limit beyond which they cannot go. Having said that, the fact remains that they are very close to the customer, they are there for ages. So, they have those deep relationships and the mining manager will always be a little hesitant in just jumping.

And that is why we are actually adopting multipronged approach. We believe that, eventually, we should be able to slowly and gradually gain a significant market share. The market will continue to grow. It is not like that Molycorps of the world will just suddenly stop. Yes, there will be very, very stiff competition. But I think eventually, we should be able to convert and obtain a decent growth in the market share for the very simple reason that we believe we have a much, much better solution to offer than a plain forged media player can offer. And that is what will differentiate us.

**Bhoomika Nair:** Sure, sure. Point accepted. Sir, the last question is on the cash on books. So, we have, over the years, kind of accreted a lot of cash. And again, on quarter-on-quarter basis, it is kind of gone up to over Rs. 2,000 crores. Now that the uncertainty of COVID, et cetera, is behind and you are back on the growth path and likely free cash flow generation, what is our thought process on this cash on books? Any dividend distribution or any other usage that you have in mind?

**Kunal Shah:** Yes, nothing specific to report, Bhoomika, but we will not significantly add from here. Of course, there will be some accumulation. But over next 2 years, because of the growth that we are seeing, between the dividend levels we have, fixed assets and working capital, we will consume cash for the next 2 years, right? If there is significant accumulation, obviously, that mindset will change. But for now, I think we are more focused on making sure we do everything to realize the growth that we are looking ahead of us.

**Moderator:** Thank you. We have our next question from the line of Raja Kumar, an individual investor.

**Raja Kumar:** So, I have a couple of questions. The first question is, I just wonder, any opportunities AIA is seeing from the orders that will be let go an European competitor Magotteaux with the high power costs?

**Kunal Shah:** Sorry, we missed most of what you said.

**Raja Kumar:** Because of the higher power cost in Europe, some of the competitors are looking at, I mean, that will be an advantage for Indian companies right, so just wanted to know, is AIA seeing any kind of upside from market share standpoint?

**Kunal Shah:** I think there is not so much facilities in Europe. So, it is not a big opportunity in that sense.

**Raja Kumar:** Okay. And sir, for the current financial year apart from the volume increase of 30,000 tons that you spoke, so what are the other levers for margin expansion?

**Sanjay Majmudar:** Okay. So, there are several reasons which can come in our favor. So, you are talking about '22-'23, correct?

**Raja Kumar:** That is correct.

**Sanjay Majmudar:** Yes. So, what I am saying is we have said we have not given any specific guidance about margins. We were only replying to the question that whether there should be a per ton analysis or whether it should be a percentage analysis, so what we have said is that whatever we have done 22%, 23%, as a pure operating margin, that can definitely continue. We also mentioned it could be inching up a little bit from an arithmetic standpoint.

So, just for example, if we add Rs. 10 as a freight to a selling price of Rs. 100 per kilo and then that freight goes down to Rs. 5, and therefore, the actual cost is also lower, and therefore, theoretically, in terms of percentage, the margin remains the same, therefore, as a percentage of sales, it can inch up. That is what I will say. Having said that, as our product mix improves, our liner and all other product sales goes up and we penetrate deeper into bigger mines, copper mines, gold mines, et cetera, we believe the margins have a potential to improve. Having said that, we have not given any specific guidance on margin improvement.

**Raja Kumar:** And the last question, sir, I just see that the inventory as of Q1 end is about Rs. 100 crores more than what you had in Q4. So, given that the raw material prices have started coming down, so is there any reason you have build up the inventory because we would have generally thought that you would have unwind high-cost inventory?

**Sanjay Majmudar:** As our raw material inventory buildup is very nominal, what is going up is on the finished goods side. If you see, because we are maintaining lot of inventories across 20-plus warehouses across the globe, point #1. It is just.

**Kunal Shah:** It is a timing issue. I do not think that there is any strategy behind. It is just a timing issue at this point in time.

**Raja Kumar:** Is it to do with your upcoming mill liner project or it is just.

**Kunal Shah:** Nothing. It is just a point in time like we told you. Nothing, no specific reason for it to go up in that sense.

**Moderator:** Thank you. The next question is from the line of Mr. Dhiral Shah from PhillipCapital. Please go ahead.

**Dhiral Shah:** Sir, you just talked about the total mill liner market size is 3 lakh tons. So, is it only a metallic mill liner or it includes rubber and composite also?

**Kunal Shah:** That is a metallic market of 300,000 tons.

**Dhiral Shah:** Okay. Sir, I mean about how much would be composite or how much would be rubber mill liner?

**Kunal Shah:** We do not have the exact number on it. 300,000 tons is a metal market on which we are focused on.

**Dhiral Shah:** Okay. Sir, since you are entering into this metallic mill liner for the first time, even one of the domestic player were into similar line of business, it is only disrupting the metallic mill liner market through the innovative product. So, what is your take on that?

**Kunal Shah:** We are not disrupting the metal market, we are just replacing the metal mill liner with another metal mill liner, but it is just got a design intervention from our side. We are already doing 20,000 tons of mill lining for mining each year already.

**Sanjay Majmudar:** Predominantly outside India.

**Dhiral Shah:** Yes, as in, do you feel any threat or going ahead for the metallic mill liner as a whole?

**Kunal Shah:** Not really. That is a different application where metal is a superior material for the type of grinding that is required.

**Moderator:** Thank you. We have our next question from the line of Siddhart Purohit from InvesQ Investment Advisors. Please go ahead.

**Siddhart Purohit:** Sir, one clarification. Like in the overall scheme of things, what will be our contribution in the total cost for the miners? Like basically, I want to understand if, let us say, copper producer spends $100 for producing 1 ton of copper, how much of mill liners or maybe our product is used over there? Is it significant enough or?

**Sanjay Majmudar:** Yes. So, Siddharth, see, there is no clear yard stick. There are very different types of operating conditions, but you can generally say that grinding, the consumable, the wear parts that we are focused on will constitute 8% to 10% of the entire mining operations cost. That is an average. It can vary mine to mine, but this is the average, so that is significant. So, the value add that we say, that if you use our grinding media or liners, A, you can reduce the consumption by 10%, 15%, 20%, which would mean a direct 1% or 2% addition to your EBITDA.

That is point #1. Point #2, we bring a lot of value add apart from the savings that we are talking about. So, we talk about reduction in the power cost, we talk about reduction in the cost of other reagents at the DP stage, and we talk about improvement in the throughputs marginally, but that overall cost of ownership in the hands of the mine goes down significantly. And that is what is unique about us.

**Siddhart Purohit:** Right. So, sir, the reason I am asking is that, in the last couple of weeks, we have seen sharp fall in commodity prices. So, are there cases where you are able to like convince a customer that if you adopt our product more aggressively or maybe faster adaptation, then probably you can make better money as compared to your competitor?

**Sanjay Majmudar:** So, first, Siddharth, we try to be as much agnostic as possible to the commodity cycle. Having said that, in a scenario of falling commodity prices, if theoretically the margins of mines come under pressure, then they would be a little more open to look at us because we are talking about their benefit.

Having said that, under any circumstances, if you talk of a solution, which can bring revolutionary changes in the operating parameters of a mine, they are always open. So, initially, before 7, 8 years, when we were approaching mines just on a cost savings basis in the consumption of the consumable wear parts, that was not making full impact.

Today, I think we have become a much more potent solution provider. We are talking about significant benefits at no extra cost in the sense that the miner is paying me for the product that I am supplying. I am not asking anything extra for the service or the consulting or whatever additional value add I bring on the table. And therefore, I become very compelling. Imagine the case of a copper mine or a gold mine, where we say that we can improve your throughput by, say, even 0.25%, then the cost of consumable wear parts becomes insignificant. You get my point?

**Siddhart Purohit:** Right.

**Sanjay Majmudar:** Yes. So, I think we are talking on a much, much different plane now than just on a cost savings basis, and that is what is making us feel very confident that we should be able to consistently keep on getting more and more market share over a longer time horizon.

**Moderator:** Thank you. We have our next question from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.

**Pritesh Chedda:** Sir, one clarification. To one of the participant, you responded that realizations, you do not see changing much in the cycle, despite the reduction in ferrochrome price.

**Kunal Shah:** The question was, can it go higher. What Sanjay Bhai responded was this looks to have plateaued in raw material pricing. If it goes down from here, our realization will mirror that.

**Pritesh Chedda:** So, the current 20% reduction in ferrochrome price is already reflected in the Rs. 160 realization.

**Kunal Shah:** We did not say 20%, I do not know where that number has come from. Ferrochrome is very, very volatile. Every day, every week, the price is changing. And I do not think we have seen cycles where things go down and go back up again. So, we will have to see this over the next 2 quarters on the price. The important thing is, in theory, in practice, in the way that our model works, if it is fair and square with the customer, if it reduces on a sustainable basis, our realization will mirror that.

**Pritesh Chedda:** So, the product mix angle that you guys were referring to, is there any substantial product mix change, which can?

**Kunal Shah:** Over quarters, we do have higher the product mix does change and that can impact but, of course, it will not impact margins by 30%, right? But you still have margin differences that accrue on account of that.

**Pritesh Chedda:** Okay. And the mill lining, is the realization equal to the average that the company has or it is a higher-priced product?

**Kunal Shah:** It is a higher-priced product, but it will not help you derive the impact of it on margin because we also have many other higher-priced products compared to the average realizations, right? So, it will be part of the overall mix. As we grow, we will also be selling other parts nearer to the average or lower than the average, right? So, it is a sum total of all those parts that we sell.

**Moderator:** Thank you. We have our next question from the line of Priyankar Biswas from Nomura. Please go ahead.

**Priyankar Biswas:** Congratulations, Kunal Bhai and Sanjay Bhai, on the great numbers. So, of course, most of my questions are answered. So, just one question from me. So, we are seeing that freight rates are softening. And I remember, you had once told that, at the moment, the supplies to Canada and Brazil, the freight rate was kind of an issue. Now how much does the freight rate, according to your calculations, need to fall from present levels for you to, let us say, resume shipments to Canada? And how much volumes?

**Kunal Shah:** No, I mean today, freight rates are at least 2x, maybe 3x in many lanes. Again we do shipping from 100 miles to a few thousand miles, right? So, that is not a one answer. But I mean, those shipping lanes where we sell to, it should come back. So, at some places, it is 2x, some places it is 3x and some places it is still even 3.5x or 4x our original rates, right? So, it is more a directional answer versus objective answer, saying, if it falls below 30%, I get 20% more margin. I do not think there is a one-to-one correlation like that kind of.

**Priyankar Biswas:** But your FY '23 or FY '24 does not include any contribution from Canada, right?

**Sanjay Majmudar:** At this point in time, no.

**Priyankar Biswas:** Okay. So, let us say, freight costs were to, hypothetically, let us say, fall by 30%, 40%, then is it possible that we could be starting to sell again to Canada?

**Kunal Shah:** Difficult to say at this time. I think we will share as things evolve. There is lot of volatility, lot of variables that we are looking at right now. So, just answering one variable independent of others may not be a fair way, which is why the overall guiding 30,000 tons should be possible, right? See, one may come, something else may go, something else may change, right? So, I do not think that would be a fair response to pin.

**Moderator:** Thank you.

**Kunal Shah:** I think most questions seem to have been answered. I think we can go for the closeout comments. So, thank you all. As always, Sanjay Bhai and I remain available offline for any other questions that you need answered. And we look forward to connecting after Diwali for our second quarter results. Have a good evening. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Chorus Call Conferencing Services. You may please disconnect your lines now. Thank you. Have a great evening.